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JAPAN'S GROWING LEADERSHIP IN GLOBAL DEVELOPMENT

Carl J. Green

Japan's latest five-year budget for foreign assistance, announced in June 1993, marks an important transition in international affairs. An aid recipient three decades ago, Japan is about to take a decisive lead over the United States as the world's largest donor. During the last five years, Japan and the United States shared leadership with annual official development assistance (ODA) expenditures of roughly \$11 billion each. But Japan's newly announced budget of \$70-75 billion over the next five years (averaging as much as \$15 billion per year) represents a 50 percent increase over its previous five-year budget. U.S. foreign aid authorizations, on the other hand, are on a downward course, decreasing from \$14 billion in FY1993 to \$13 billion in FY1994.¹ In addition to the new ODA budget, Japan has also announced a "Funds for Development Initiative," under which it will provide developing countries Export-Import Bank loans, international trade insurance, and other aid not within the definition of ODA,² amounting to an additional \$50 billion over the five-year

¹ The \$14 billion figure does not include the special \$12.3 billion IMF Replenishment provided in FY1993.

² ODA includes financial flows (grants and loans) to specified developing countries that are (a) undertaken by the official sector, (b) with promotion of economic development or welfare as main objectives, and (c) at concessional financial terms (if a loan, at least 25 percent grant element). ODA does not currently include assistance to Russia or Eastern European countries. Organisation for Economic Cooperation and Development (OECD), *Development Cooperation* (Paris: OECD, 1992).

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period. These funds, to be provided on an "untied" basis (in other words, they can be used for procurement of goods and services from any source), will be used for economic infrastructure, the environment, and other purposes closely related to Japan's ODA program. Together with ODA, the Funds for Development Initiative will bring Japan's untied assistance to developing countries to the level of approximately \$125 billion over the next five years.

It would be hasty to conclude that Japan has made a dramatic bid to assume ODA leadership. A large part of the dollar-value increase in aid is attributable to recent appreciation of the yen. Moreover, Japan's ODA expenditures are not especially impressive as a percentage of gross national product. The 0.30 percent share of Japan's GNP devoted to ODA in 1992 was slightly below the 0.33 percent average for members of the OECD's Development Assistance Committee (DAC). This figure is unlikely to change significantly under the new budget, assuming that the Japanese economy returns to a reasonable rate of growth. But with the United States and other DAC countries suffering from advanced stages of "aid fatigue" (America's 1992 ODA contribution was a dismal 0.20 percent of GNP), even a relatively modest five-year effort will put Japan far in front of all DAC members in total ODA volume.

Is Japan prepared to be the global leader in ODA? Psychologically, the Japanese appear to be quite ambivalent about the prospect. There are clearly some advantages. Through ODA, Japan has become far more influential in world affairs, with a voice heard not only throughout Asia but increasingly in Latin America and Africa as well. As a Foreign Ministry official recently noted, the number of heads of state, ministers, and other leaders visiting Japan from developing countries doubled from 1988 to 1991.³ Japan has also gained greater stature in multilateral organizations, as reflected in U.S. sponsorship of Japan's bid for a permanent seat on the UN Security Council.

On the other hand, Japan increased its influence in world affairs while sharing top donor status with the United States. Despite frustrations over some policy differences, there is no indication that the Japanese government is anxious to overtake the United States in development assistance. Indeed, Japanese officials have been watching the decline in congressional support for the U.S. aid program with considerable anxiety. Privately, they express concern that the unpopularity of aid in the United States could adversely affect popular support for ODA in Japan and, perhaps, create new points of tension in their relationship with Washington.

³ Takao Kawakami, "Japan's Aid Policy Toward the 21st Century," *Gaiko Forum*, March, 1993.

Despite their ambivalence, the Japanese do have significant leadership assets. In addition to large aid budgets, they bring fresh ideas and a high level of commitment to the global development effort. As the only non-Western country to have joined the G-7 community and the only DAC member to have experienced developing country status, Japan is itself a model for many developing countries. The Japanese model, with its emphasis on export-orientation, human resource-based comparative advantage, and sound, occasionally interventionist, economic policies, has already shown itself effective in other East and Southeast Asian countries. It is now attracting interest in many other parts of the developing world.

Though apparently successful, the Japanese or Asian development model has not been well articulated in the past and has not yet proved influential in the DAC community or among the U.S.-dominated multilateral development banks (the exception being the Japanese-dominated Asian Development Bank). During the 1980s, the World Bank, at the urging of the Reagan and Bush administrations, staked out a strong position against nearly all forms of government economic intervention. Under the banner of "structural adjustment," developing countries were counseled or compelled to deregulate, to remove subsidies and protection, and generally to eschew anything that smacked of "industrial policy."

These World Bank policies were often frustrating to the Japanese, who believe that government policies can play a positive role in developing important industries and counteracting market failures.⁴ To bring their views into sharper focus in the international development community, the Japanese sponsored a major World Bank study entitled *The East Asian Miracle: Economic Growth and Public Policy*. This study, published in September 1993, concludes that sound macroeconomic policies were the most important factors in the rapid development of East Asian economies, but it departs from neoclassical orthodoxy to the extent of acknowledging that some government interventions contributed to economic success. It stops well short, however, of endorsing Japanese views on the value of industry-specific government mea-

⁴ A major focus of this debate is the so-called Two-Step Loan that has been employed by the Overseas Economic Cooperation Fund (OECF) and that Japan has urged on the World Bank. The OECF provides long-term loans at concessional rates to governments of developing countries for re-lending by those governments to local enterprises in approved industries. The World Bank criticizes this practice for distorting market-mechanism allocation of credit. The Japanese argue that it helps to correct market-mechanism deficiencies in developing countries.

tures, noting that many efforts of East Asian governments to build up specific industries failed. It leaves open the question whether Asian-style strategies can work in other parts of the world such as Africa or Latin America. This issue is now at the center of a debate that seems certain to influence future multilateral development bank (MDB) policies and may also provide the intellectual foundation for an expansion of Japan's leadership role.

Whatever the outcome of the debate, it seems clear that the Japanese will seek to extend their East Asia successes to other parts of the world. As *Japan's ODA Charter* states, "Japan's own development policies and experiences, as well as those of countries in East and Southeast Asia which have succeeded in economic take-off, will be put to practical use."⁵ Japan's power in the multilateral development banks, in all of which Japan is a major shareholder, is certain to grow as its contributions continue to increase.⁶

Improving ODA Quality

From its inception until well into the nineteen seventies, most of Japan's aid was in the form of export credits that also served to advance the postwar recovery and growth of Japanese industry. In those years, Japanese aid policy was dominated by the Ministry of Finance (MOF) and Ministry of International Trade and Industry (MITI), ministries whose mission was primarily to serve Japanese economic interests. The Ministry of Foreign Affairs (MOFA), with its broader foreign policy concerns, played only a supporting role.

The goals of Japan's aid program began to change in the early 1970s when the first oil shock and anti-Japanese riots in Asia prompted Japan to rethink its relationships with developing countries. At the same time, Japan was beginning to feel pressure from the United States and Europe to assume a greater share of international responsibilities. Japan's commitment to its "Peace

⁵ The principles and policies of Japan's aid program are set forth in *Japan's ODA Charter*, adopted June 30, 1992. The *Charter* is an administrative document and has not been submitted to the Diet for enactment. It is therefore not legally binding on the government.

⁶ Japan is the top shareholder in the Asian Development Bank, second largest shareholder in the World Bank and the European Bank for Reconstruction and Development (where it shares the number two position), and fourth largest shareholder in the African Development Bank. In the Inter-American Development Bank, Japan is the top non-regional member, ranking ninth overall. Donald R. Sherk, "The Development Banks: A New Role for Multilateral Actors?" in *Common Vision, Different Paths: The United States and Japan in the Developing World*, Barbara Stallings, ed. (Washington, D.C.: Overseas Development Council, 1993).

Constitution" precluded a larger military role, but ODA expansion was seen by Japanese leaders as an effective means of responding to external pressures and enhancing Japan's international stature. The Japanese public strongly supported this new policy direction. Even today, public opinion polls show that overwhelming majorities favor a strong ODA program.

Since the mid-1970s, ODA has been gradually transformed from an instrument for export promotion into a principal pillar of Japanese foreign policy. As the ODA program grew, the Foreign Ministry assumed an increasingly influential role in ODA policy formation, largely at the expense of the trade bureaucracy. The position of Director-General of the Foreign Ministry's Economic Cooperation Bureau, a career backwater twenty years ago, is now seen as one of the most powerful positions in the Ministry and is much sought after by aspiring diplomatic officials.

Despite the progress that has been made in de-linking ODA from export promotion, the Japanese program continues to suffer from a reputation for being narrowly focused on Japan's economic self-interest. Much of this criticism is based on somewhat outdated claims concerning Japan's use of "tied aid"—that is, aid disbursements linked to the recipient's purchase of products and services from Japan.

By FY1990 the percentage of Japan's bilateral ODA (grants, loans, and technical assistance) that was fully "untied" reached 69.9 percent, the highest percentage of any DAC country.⁷ In the case of loans, Japan's untied percentage is considerably higher, reaching 95.8 percent in FY1992, according to MOFA data.⁸ The percentage of procurement contracts under Overseas Economic Cooperation Fund (OECF) loans actually taken by Japanese firms was 35 percent in FY1992, up from 31 percent in FY1991, but down significantly from 75 percent in FY1984, while the percentage going to firms from the United States and other OECD countries in FY1992 was 13 percent (down from 21 percent the year before).⁹ Developing-country firms won the remainder of the contracts: 52 percent in FY1992, an increase of 4 percent from FY1991. Critics point out

⁷ OECD, *Development Cooperation*, 1992, A-15.

⁸ Loan Aid Division, Economic Cooperation Bureau, Ministry of Foreign Affairs, *Procurement Record under ODA Loans in FY1992* (Tokyo: May, 1993).

⁹ Japanese government authorities have sponsored or participated in a number of programs to advertise opportunities for American and other foreign firms to participate in Japanese-funded aid projects. Figures are from Ministry of Foreign Affairs, *Procurement Record under ODA Loans in FY1992*, and U.S. Department of State, *Japan's Foreign Aid: Program Trends and U.S. Business Opportunities* (Washington, D.C.: February 18, 1993).

that many of the developing-country firms that receive procurement contracts have Japanese affiliations. This is certainly true to a significant extent, though difficult to document. Nevertheless, the Japanese program is far more open than in the past and appears to be as open as that of any major donor.¹⁰

The Japanese program is also faulted on other issues of "aid quality" as defined by the DAC. But, as noted below, most of these DAC standards—such as the ratio of grants to loans, regional concentration, and share of aid that addresses poverty and basic human needs—are based on assumptions the Japanese regard as quite debatable. On many points, the DAC standards run somewhat counter to Japan's own development philosophy. Though Japan has accommodated the DAC standards to a degree, it is showing greater confidence in asserting its own strong views on these issues.

The more substantial weaknesses of the Japanese aid program include paucity of personnel and inadequate coordination among government agencies. Japan had only 1,625 government officials engaged in aid activity in 1991, while the United States had 4,512 and Germany, 4,865. On average, each Japanese aid official disbursed \$6.74 million in ODA, more than three times as much as his counterpart in the U.S. Agency for International Development (AID), and nearly five times as much as the average German aid official.¹¹ It is difficult for Japanese ODA officials to exercise adequate quality control while disbursing such large amounts of money.

Unlike in the United States, there are few strong non-governmental organizations in Japan to share the aid burden. Paucity of personnel contributes, in turn, to what many regard as excessive centralization of official decisionmaking in Tokyo. It also has perpetuated concerns about the link between aid and profits for Japanese firms, owing to the major role of private

¹⁰ In the view of this author, continuing American criticism of Japan's tied aid is off target for at least three reasons. First, as noted, it is quite outdated. Second, America's tied aid percentage is much higher than Japan's by most measures. In both FY1988 and FY1989, approximately 40 percent of U.S. bilateral aid was tied, compared to less than 14 percent of Japan's. (OECD, *Development Cooperation*, 1991, 177; 1990, 192.) Third, in any case, the emphasis generally given to the issue is somewhat distorted. Tied aid is not the worst possible thing: though not as good as untied aid, it is better than no aid. As a result of Western "aid fatigue," many developing countries that are in need of assistance may face the prospect of sharply reduced aid. For a contrary view on the extent to which Japan has untied its aid, see Margee Ensign, *Doing Good or Doing Well: Japan's Foreign Aid Program* (New York: Columbia University Press, 1992).

¹¹ Ministry of Foreign Affairs, *Japan's ODA Summary*, 1993, 16.

sector organizations, such as general trading companies (*sogo shosha*) and consulting firms, in locating and packaging aid projects. Many Japanese businesses, however, complain that untying of aid and the increased use of foreign consultants by Japanese aid agencies are sharply reducing their own opportunities to participate in the commercial benefits of the program.

The Japanese government is making substantial efforts to remedy its personnel deficiencies through the establishment of new training programs and policy research facilities as well as by taking some steps, albeit tentatively, toward nurturing a stronger non-governmental organization community. There is a long way yet to go, but it is encouraging to note that many young Japanese are pursuing development studies in their universities and looking for career opportunities in the field. This enthusiasm is somewhat reminiscent of the United States in the Kennedy era.

Another frequently cited problem in the Japanese ODA program is that of rivalry among different ministries and aid agencies. Four separate institutions—MOF, MOFA, MITI and the Economic Planning Agency—are involved in formulating aid policy. Implementation is in the hands of two different agencies: the Japan International Cooperation Agency (JICA), which provides grants and technical assistance, and OECF, a soft-loan facility. In addition, there is the Export-Import Bank of Japan, which provides non-ODA trade credits. Communication and cooperation among the various actors often leaves much to be desired.

It is doubtful whether there is a cure that is not worse than the disease. Consolidation of all Japanese aid functions into a single agency, as in the case of America's Agency for International Development, would be extremely difficult to achieve given the strong bureaucratic interests involved. Even if possible, the creation of a single ODA agency would tend to weaken, as it has in the United States, linkages between aid policy and policies relating to trade and investment. These linkages are important to the Japanese development strategy. As stated in *Japan's ODA Charter*, "A close relationship will be maintained between ODA, direct investment and trade, so that these three can promote the development of developing countries organically." This is a sound goal and worth sacrificing some measure of bureaucratic efficiency to achieve.

Among its advantages, Japan's aid program is relatively free from the pressures of parliamentary politics. Unlike the United States, in which the aid program is governed by congressional action, the Japanese program has been shaped by professional bureaucrats. As a result, Japan's ODA program, as set forth in *Japan's ODA Charter*, is well-designed compared to the bewildering complexity of current American aid legislation, with its more than thirty-three

objectives.¹² Whether Japan's ODA Charter is adhered to in the administration of Japan's aid activities remains to be seen, but in conceptual terms, it shows great clarity of purpose.

Japan's Aid Policy

The basic goals of Japan's ODA program are similar to those pursued by the United States and DAC countries generally. Japan is a vigorous democracy with a market-oriented economy, albeit with some distinctive features. Like those of the United States, Japan's official pronouncements express support for economic development, the growth of democratic institutions, respect for human rights, and sustainable development that protects the environment for future generations. Like the United States, Japan puts emphasis on the problems of population growth, poverty, refugees, disease, and the spread of weapons of mass destruction. These are large and fundamental areas of agreement. The differences noted below have far more to do with priorities and operating style than with basic goals or values.

Priority of Economic Growth. Like the United States, Japan seeks to promote both economic growth and democracy. But the two countries differ significantly in the priority assigned to these goals. The Japanese consider economic development and, particularly, improvement of economic infrastructure essential for creating conditions in which democracy can flourish. The United States generally emphasizes that democratization is necessary for sound economic development. As AID Administrator Brian Atwood said in Senate testimony, "Democratic development is . . . essential to sustainable development."¹³

Philosophically, the distinction between these positions is, perhaps, subtle. But it is very important for the operational direction of the U.S. and Japanese programs. Approximately 40 percent of Japanese ODA expenditures are devoted to economic infrastructure, while the United States provides virtually no infrastructure aid at all. Practically all of U.S. aid expenditures are now directed toward achieving political and social objectives.¹⁴

¹² In November 1993, the Clinton administration introduced legislation to replace the Foreign Assistance Act of 1961, as amended, with a simpler legislative scheme.

¹³ Statement to the Subcommittee on International Economic Policy, Trade, Oceans and Environment, Senate Committee on Foreign Relations, July 14, 1993.

¹⁴ In the 1950s and 1960s, the United States was also a major donor of economic infrastructure support. Contemplation of this fact raises the intriguing question whether the United States learned something that Japan has yet to learn about the effectiveness of

The Japanese belief that democratization tends to grow out of economic development derives some support from the experience of Asian neighbors such as South Korea and Taiwan, in which, after reaching a certain stage of economic development, authoritarian regimes gave way to democratic governments. But these are countries in which authoritarianism was generally tempered by Confucian paternalism and in which well-trained technocrats played major roles in the formulation and implementation of policy. The policies they pursued were generally designed to achieve rapid economic growth with relative equity in the distribution of its benefits. By spreading economic power, growth in Taiwan and Korea created favorable conditions for political empowerment. It is questionable, however, whether such a process would occur in countries with governments that are greedier or less competent. In much of the developing world, economic growth will not necessarily bring about either equity or democratization. Accordingly, as their aid program extends farther beyond East Asia, the Japanese may find it necessary to provide more assistance for political and social development than in the past.

Critics of the Japanese aid program note that the preference for economic infrastructure creates many opportunities for Japanese firms to bid on large projects. While this has certainly been the case, Japan's preference for economic infrastructure projects has deeper philosophical underpinnings. It is consistent with the way in which Japan itself used development loans in the postwar era and is central to the successful development of Japan's Asian neighbors. For these reasons it is likely to remain at the core of the Japanese approach to development.

Emphasis on Loans. Another major difference in the Japanese and American approaches to development is that nearly half of Japan's ODA is in the form of soft loans, a category of assistance that the United States does not provide. Seventy-four percent of U.S. ODA in 1991 consisted of outright grants, with the remainder largely accounted for by technical assistance.¹⁵

Japan's use of loans is an expression of its aid philosophy. The *Charter* declares that "Japan attaches central importance to . . . the self-help efforts of developing countries toward economic take-off." Japan's stated goal is to help

economic infrastructure aid or whether extraneous factors (for example, domestic politics, the growth of protectionism or simply shortage of funds) somehow altered America's priorities. Perhaps the United States simply had more experience than has Japan in countries that misused economic infrastructure assistance. In any event, it would be highly speculative to assume any convergence of Japanese and American views on this question.

¹⁵ OECD, *Development Cooperation*, 1992, A-14.

developing countries stand on their own feet rather than remain aid-dependent. Operationally, the Japanese tend to prefer the use of loans to grants on the theory that the discipline of loan repayment tends to encourage self-help while grants, in many cases, tend to perpetuate dependency. The Japanese often cite their own experience during the postwar recovery period when they moved quickly to repay prewar loans and accepted no grants after the end of the American occupation.

On a related issue, Japan has taken a tough line in respect to requests from the United States and other countries for debt forgiveness in Africa and for countries such as Poland and Egypt. The Japanese argue that forgiveness would hurt the interests of debtor countries by impairing their creditworthiness.

Somewhat unfortunately, from Japan's perspective, the DAC uses grant ratio as a measure of ODA "quality," and Japan stands at the bottom of the list with respect to the grant share of its total ODA. Japan has been sensitive to criticism on this score. As the 1992 ODA *White Paper* states, "the GNP ratio and grant element are internationally accepted indicators, and unless Japan improves its aid as measured on this basis, it will not be able to gain full recognition in international society."¹⁶

Reconciling their own convictions with DAC standards presents something of a dilemma for the Japanese. But they clearly have no intention of abandoning the use of soft loans. On the contrary the *Charter* indicates that Japan will continue to pursue a balanced program.

To respond to the various needs of developing countries in different stages of development, Japan's ODA will take advantage, to the maximum extent possible, of the merits of loans, grants, technical cooperation and other forms of assistance. All of these forms of assistance will be organically linked together and coordinated.

In Asia, the site of its largest aid programs, Japan will continue to place principal emphasis on the use of loans, particularly as more Asian countries achieve middle-income status. Japan will make more grants, however, as its ODA activities extend further into Africa and other least developed areas.

Alleviation of Poverty. Japan's economic infrastructure aid considerably outweighs its expenditures for direct alleviation of poverty or basic human needs, although the latter grew from almost 26 percent in 1988 to over 34 percent in

¹⁶ Ministry of Foreign Affairs, 1992 ODA *White Paper* (Tokyo: 1991), 10.

1990. (It fell back to 22 percent in 1991 under the impact of the Gulf War.) Much of Japan's support for basic human needs is in the form of grant aid and technical cooperation as opposed to loans. Many Japanese aid officials question whether poverty-oriented grants can contribute as much as infrastructure loans can to self-help or real economic growth. But, as budgets increase and Japan's ODA program expands further into the least developed countries, it is likely that poverty and basic human needs assistance will grow significantly. At the same time, Japan can perhaps shift some of its support for economic infrastructure from ODA budgets to Export-Import Bank loans under the Funds for Development Initiative. Such a shift would allow Japan to improve its ODA quality rating without sacrificing overall infrastructure support.

Geographic Scope. East and Southeast Asia receive the largest part of Japan's aid, but the geographical scope has expanded significantly in recent years. The ten largest recipients of Japanese total bilateral ODA in 1992 were:

<u>Country</u>	<u>Amount (\$ million)</u>	<u>Share (percentage)</u>
Indonesia	1357	16.0
China	1051	12.4
Philippines	1031	12.2
India	425	5.0
Thailand	414	4.9
Vietnam	281	3.3
Pakistan	173	2.0
Bangladesh	163	1.9
Malaysia	157	1.9
Peru	155	1.8

The next ten recipients included Kenya, Jordan, Zambia, Egypt, Nepal, Sri Lanka, Papua New Guinea, Bolivia, Poland, and Tanzania. During 1991, Japan was the top aid donor in thirty-one countries, and the second largest donor in twenty-eight.¹⁷ Japan signalled its intention to continue the global expansion of its program by undertaking major new assistance programs in the former Soviet Asian republics during 1993 and by hosting a major international conference on African development in Tokyo in October 1993.

Japan has been criticized for concentrating its aid activities in Asia, though regional concentration is typical of most other donors as well. The percentage of Japan's aid to Asia declined from almost 75 percent in 1981 to less than 69

¹⁷ Ministry of Foreign Affairs, *Japan's ODA Summary*, 1993.

percent in 1991, but Japan has made clear that Asia remains its top priority.¹⁸ Japan's ODA Charter states:

Historically, geographically, politically and economically, Asia is a region close to Japan. East Asian countries, especially member countries of the Association of South East Asian Nations (ASEAN) constitute one of the most economically dynamic regions of the world, and it is important for the world economy as a whole to sustain and promote the economic development of these countries. There are, however, some Asian countries where large segments of the population still suffer from poverty. Asia, therefore, will continue to be a priority region for Japan's ODA.

The *Charter* goes on to state that Japan will also extend cooperation—"befitting its position in the world"—to Africa, the Middle East, Central and South America, Eastern Europe, and Oceania.

While Japan is expanding its aid program geographically, the United States is in the process of pulling its official AID presence out of twenty countries over the next three years. In FY1994, the United States will concentrate almost 50 percent of its foreign assistance on just Egypt, Israel, and Russia.

Request Basis. The Japanese aid program is distinctive also because, with limited exceptions, it operates solely on the basis of developing country requests. Otherwise stated, Japanese aid personnel do not play nearly as active a role as their U.S. or European counterparts in proposing projects to recipient countries. There are several explanations for Japan's approach.

On the philosophical level, it is consistent with Japan's general self-help approach. From the Japanese perspective, aid is more effective if it responds to the recipient's own priorities and if the recipient shoulders part of the project's costs. Politically, the request system recognizes the sensitivity of many countries, particularly those in Asia, to any perception of pressure from Tokyo. Administratively, it may be something of a necessity, given the paucity of Japanese aid professionals. An effect, if not a cause, of the request-based system is that Japanese firms, especially trading companies, have had great opportunity to develop and package aid projects to their own advantage.

The Environment. Unlike the United States, the Japanese ODA program places heavy emphasis on environmental aid. At the Earth Summit held in Rio de Janeiro in 1992, Japan announced it would increase its environmental ODA to approximately \$7.5 billion during the five-year period beginning in FY1992.

¹⁸ OECD, *Development Cooperation*, 1992, A-18.

Japan stated that it would emphasize preservation and basic research, mainly of tropical forests, and enhancement of developing countries' capabilities to cope with environmental problems.

Japanese business is often criticized, both domestically and abroad, for environmentally destructive practices in developing countries. Whether the Japanese government's new emphasis on the global environment will bring about more benign practices remains to be seen. But Japan's own experience and that of Asian neighbors such as Korea and Taiwan suggest that environmental improvement is best achieved through economic growth. *Japan's ODA Charter* takes a balanced position on growth and the environment, stating, as a fundamental principle, that "environmental conservation and development should be pursued in tandem." This pro-growth position is accompanied by a very positive assessment of the role of technology, specifically Japanese technology, in solving environmental problems:

In implementing environmental ODA, Japan will make the best use of its technology and know-how, which it has acquired in the process of successfully making environmental conservation and economic development compatible.

This statement refers to the environmental clean-up effort Japan began in the early 1970s while continuing rapid economic growth.

Although other aspects of its aid program operate on a request basis, Japan recognizes that environmental conservation is often a lower priority for developing countries bent on industrialization. For this reason, Japan has announced its intention to urge environmental projects on developing countries where it considers them appropriate. To avoid competition between environmental and other projects, the \$7.5 billion fund is administered separately from the regular ODA budget. Expenditures from this fund totalled approximately \$2.2 billion in FY1992.¹⁹

Human Resources. Another unique element of the Japanese ODA program is its stress on human resource development—the education and training of personnel in developing countries required to achieve economic growth and development. The *Charter* states:

A priority of Japan's ODA will be placed on assistance to human resources development which, in the long-term, is the most significant element of

¹⁹ Ministry of Foreign Affairs, *Japan's ODA Summary*, 1993, 7.

self help efforts toward socio-economic development and is a basic factor for the nation-building of developing countries. Japan will also promote cooperation for the improvement and dissemination of technologies, such as research cooperation which will raise the research and development as well as adaptive capabilities of developing countries.

The Japanese consider human resource development one of the most important elements in their own remarkable economic growth. Thanks to a well-educated, well-trained, and well-disciplined work force, Japan was able to create efficient industries notwithstanding its paucity of material resources. Like its approach to the environment, the Japanese ODA program emphasizes the role of technology in promoting human resources development.

Military Expenditures. While both the United States and Japan agree on the importance of controlling the spread of weapons of mass destruction, the Japanese, in principle, go further. In addition to prohibiting the use of ODA "for military purposes or aggravation of international conflicts," the *Charter* states that "[f]ull attention should be paid to trends in recipient countries' military expenditures," and cites concern for international peace and stability as well as for the developing country's priorities in allocating scarce resources.

Unlike many other DAC countries, which are also arms exporters to developing countries, Japan is prohibited from exporting weapons by its Constitution and prevailing government policies. This puts the Japanese in a position to take a much stronger stand on developing countries' military expenditures. Japan has pressed its view on discouraging military expenditures within the OECD and at various international conferences. It is evident, however, from a review of the countries that receive Japanese ODA that many of them (including, of course, China) do have very large military budgets. The Japanese take the position that they are concerned with "trends" rather than fixed or arbitrary criteria and that, in recognition of the varying circumstances of recipient countries, they will express their views through "intensive policy dialogues" rather than through imposing strict conditions on recipient countries. The same approach is followed with democratization and human rights.

Some Western critics of the Japanese program claim that its policies on military expenditures and human rights lack teeth, while Japanese officials stress the importance of approaching these difficult problems with flexibility and pragmatism. This argument has its roots in different cultural traditions, one normative and legalistic, and the other with a strong preference for compromise and consensus. It would be erroneous to assume that the Japanese preference for "intensive policy dialogue" shows a lack of firm commitment. On the other

hand, whether dialogue will be more or less successful than Western conditionality can only be determined in the light of results over a period of years.

Implications of Japan's Aid Policy. The increase in Japan's ODA budgets will substantially help many developing countries but cannot be viewed as a major net increase in resources for development. Overall, funds for development have been reduced by the gradual erosion, in real terms, of the assistance programs of other DAC countries (including the United States) and by the conversion of the former Soviet bloc from aid-givers into aid-recipients.²⁰ Of course, some developing countries, notably those of East and Southeast Asia, are rapidly graduating from that status, but this eases the problem only to a limited extent. Overall, funds for development are far short of requirements and Japan's increasing aid budget is a rare bright spot in a generally bleak picture.

Japan's development leadership will substantially affect the types of assistance available to developing countries. There doubtless will be more scope for infrastructure-related projects, the environment and human resources development. Developing countries will be under pressure to show greater self-help, more outward-oriented economic policies, and a greater role for economic technocrats in government. They can expect rather rigorous lending terms with no likelihood of debt forgiveness. They will face greater pressure on military expenditures but, perhaps, somewhat less on democratization and human rights. In either case the pressures will be exerted through Asian-style processes of negotiation and persuasion rather than rigid conditionality.

Whether the Japanese approach to development can be successful outside East and Southeast Asia is an open question. But many would agree that it has a better record to date than traditional Western development strategies. It is now time for the international development community to test what Japan has to offer.

Implications for the U.S.-Japan Relationship

For the United States, Japan's growing development leadership and expanded international influence represent a new set of realities requiring

²⁰ Japan has been a reluctant contributor to Russia both because it questions Russia's ability to make good use of external assistance at this time and for political reasons relating to the Yeltsin government's refusal to negotiate the return of islands seized from Japan at the end of World War II. Japan has, however, agreed to provide a total of \$4.65 billion in aid to Russia, of which approximately \$500 million would meet the DAC criteria for ODA. The rest includes \$2.9 billion in trade insurance and \$1.2 billion in Export-Import Bank loans. Robert M. Orr, "Broader Vision Needed on Russian Aid," *Nikkei Weekly*, April 26, 1993.

appropriate policy responses. The basic choice is between enhanced bilateral cooperation or a sharper rivalry.

The arguments for strengthened cooperation are compelling. In the post-Cold War era, America's strategic concerns have shifted from the Soviet military threat to problems such as environmental degradation, overpopulation, weapons proliferation, and refugees. Japan shares these concerns and has great financial, technological and other resources to bring to bear in their solution. In Cold War terms, Japan was an ally in a rather limited sense because of the constitutional limitations on its military role. In the post-Cold War environment, Japan is a unique and indispensable partner.

Japan also needs the cooperation of the United States to advance the goals of its aid program. Even if it falls behind Japan in ODA expenditures, the United States remains the world's most powerful and influential country. Through cooperation, the two countries can combine and leverage their respective strengths. Moreover, as the largest contributors to the multilateral development banks they can cooperate to improve the effectiveness of those institutions or, in the absence of cooperation, cripple them through policy deadlock.

Development cooperation is of enormous importance also to the U.S.-Japan relationship itself. With enormous tensions over trade and economic issues, the bilateral relationship badly needs a new positive agenda. Without one, the relationship could easily move in a mutually damaging and dangerous direction.

Of course, cooperation is not a panacea. Both Japan and the United States have their own national interests and they may define shared interests differently. With its excessive current account surpluses, it is appropriate that Japan take over leadership in aid volume. But the United States must remain a money player to retain its share of influence on the development agenda. A substantial U.S. aid program is also essential to effective partnership with Japan. "Our brains, your money" has never been a viable formula. Neither Japan nor the United States would long tolerate carrying a partner that does not bear a fair share of the costs.

The imbalance between Japanese and U.S. efforts seems to be growing much too rapidly. For example, U.S. ODA expenditures in the Asia-Pacific region in FY1990 ran roughly \$560 million, compared to \$3.4 billion for Japanese ODA.²¹ This means that Japan's aid presence in the Asia-Pacific region was more than six times that of the United States! And, U.S. aid in the region

²¹ OECD, *Development Cooperation*, 1992, A-53.

is declining further. U.S. assistance for military as well as development purposes decreased to a mere \$268 million in FY1993.²² This is an unhealthy situation from any perspective. The countries of the Pacific region are among America's largest and most rapidly growing export markets. For its own sake, the United States needs to be more active in Asia. It must also be more active if it is to make U.S.-Japan cooperation more than an empty slogan.

U.S.-Japan development cooperation can best be defined in terms of consultation, coordination, and occasionally, co-venturing. The two governments and non-governmental organizations in both countries must share ideas and perspectives much more frequently and fully in the future than they have in the past. To achieve this goal, national leaders must reinforce the recognition that both countries are on the same side.

Until now, Americans have often thought of cooperation as, essentially, Japanese support for American initiatives. Too little consideration has been given to the creation of a two-way street. Neither country has a monopoly on good ideas or useful experience. To achieve real cooperation, there has to be far more give-and-take of ideas and approaches. Americans have much to learn from the Asian development model, for example, just as Japan would do well to study American successes in working with non-governmental organizations and private voluntary organizations.

Coordination means striving for greater harmony between the two countries' programs, but it emphatically does not mean program homogenization. Within a framework of shared goals and objectives, diversity of approach has many benefits. It gives far greater scope to developing countries for experimentation that can lead to creative solutions. It also helps to avoid the natural resentment recipient countries would feel toward anything that smacked of a donors' cartel.

While principal emphasis should be placed on consultation and coordination, occasional development co-ventures are also of value both as symbols of cooperation and for educating Americans and Japanese about each other's programs. Since 1980, the United States and Japan have participated in a handful of joint projects in a number of different countries. It must be acknowledged, however, that joint projects are administratively difficult to operate owing to differences in budgeting systems, fiscal years, and other factors. For these reasons, they are unlikely ever to represent more than a minor share of either country's overall development program.

²² U.S. Department of State Dispatch, May 24, 1993, 381.

Cooperation has often been proclaimed in the past but seldom practiced. Pledges of cooperation in solving global problems are the standard fare of presidential summits, but there has usually been more carping than follow-through at the program level. This was the fate, for example, of the eloquent "Tokyo Declaration" signed by the two heads of government in January 1992. More recently, the April 1993 summit between President Clinton and former Prime Minister Miyazawa led to the declaration of a "U.S.-Japan Common Agenda for Cooperation in Global Perspective." The Common Agenda includes significant projects relating to the environment, population, and AIDS prevention. This opportunity is too important to let slip. The two countries owe it to themselves and to the developing world to move beyond the level of rhetoric and begin to take the business of cooperation seriously.

